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OPENNESS TO FOREIGN INVESTMENT
The Lao government is open to foreign investment as a matter of policy. It allows 100% foreign ownership of investments. The overall investment climate is poor but improving. Laos rates very low in international indices of transparency and ease of doing business.
The economic reforms adopted in 1988 and Decree No. 73/PO, dated October 22, 2004, purport to promote foreign direct investment as a means of boosting development and economic growth. Under the 2004 Law on the Promotion of Foreign Investment, foreign investors may invest in all business sectors and zones of investment in the Lao People,s Democratic Republic, except in business activities which are detrimental to national security, have a negative impact on the environment, or are regarded as detrimental to health or national traditions. In recent years Laos has seen a significant increase in FDI, especially in mining, hydropower, and plantation agriculture. Major foreign investors are Thailand, China, and Australia.
When bidding for the right to large contracts, companies frequently offer the government the &option8 of purchasing part of the company at a later date, often with money borrowed from the investor or multilateral institutions. The investment term of a foreign investment enterprise depends on the nature, size, and conditions of the business project but normally cannot exceed fifty years. Under special circumstances, foreign investment enterprises may be extended with the approval of the government. However, foreign enterprises that receive extension approval from the government may not exceed a total investment term of seventy-five years.
Foreign investors seeking to establish operations in Laos must submit project proposals to the Department for Promotion and Management of Domestic and Foreign Investment (DDFI), Ministry for Planning and Investment (MPI). The proposal is then screened by the relevant line ministries and adjudicated by the Prime Minister,s Office. Under Prime Minister Decree No 301, dated October 12, 2005, proposals for projects worth US $20 million or more require the approval of the Prime Minister. The President and Vice President of the Department of Domestic and Foreign Investment can approve investments of less than $10 million USD. FDI equal to or less than $3 million USD can be approved at the provincial level by all provinces, and in large provinces the ceiling for provincial level approval is $5 million.
Foreign investors in a joint venture must contribute at least thirty percent (30%) of the venture,s registered capital.

Capital contributed in foreign currency must be converted into kip based on the exchange rate of the Bank of the Lao People,s Democratic Republic on the day of the capital contribution. Wholly foreign-owned companies may either be a new company or a branch office of an existing foreign company. Throughout the period of operation of a foreign investment enterprise, the assets of the enterprise must not be less than its registered capital. The screening process at the Department for Promotion and Management of Domestic and Foreign Investment (DDFI) in the Ministry of Planning and Investment (MPI) takes into account the financial and technical feasibility of the project, input from relevant line ministries, and whether the proposed project conflicts with government policy. Upon receipt of an application, the MPI must coordinate with relevant sectors and local authorities to consider and respond in writing to the foreign investor. Responses to projects, depending on project type, are supposed to be forthcoming within 15) 45 working days.
Foreign investors are required to obtain a foreign investment license, an enterprise registration certificate, and a tax registration certificate from the MPI office nearest the place where the foreign investors are licensed. Thereafter they shall be considered as enterprises established in conformity with the laws of the Lao People,s Democratic Republic. Within 90 days from the date of receipt of an investment license the foreign investment enterprise must commence business activities. If the investors fail to do so, the foreign investment license is subject to termination.
In addition to the investment license, foreign investors are required to obtain other permits. These include a business registration which must be annually renewed from the Ministry of Industry and Commerce, a tax registration from the tax department in the Ministry of Finance, a business logo registration from the Ministry of Public Security, permits from each line ministry related to the investment (i.e., Ministry of Industry and Commerce for manufacturing; Ministry of Public Works and Transportation, etc.), appropriate permits from local authorities, and an import-export license, if needed. Obtaining the necessary permits can pose a challenge to foreign investors, especially in areas outside the capital. The recent creation of a &one-stop shop8 for many permits within the Ministry of Planning and Investment should help ease permitting difficulties in the future.
Lao law provides for contracts. The following link is for a translation of the Lao contract law.
http://www.undplao.org/whatwedo/bgresource/go v laolaws.php

However, since Laos is a communist one-party state, the sanctity of contracts is subject both to political interference and a number of socialist principles enshrined in the law. For example, according to the contract law:

A contract can be voided if it is disadvantageous to one party, and

A voidable contract can be declared void by the disadvantaged party.

Although a commercial court system exists, in practice most judges adjudicating commercial disputes have little training in commercial law. Those considering doing business in Laos are strongly urged to contact a reputable law firm for additional advice on contracts.
In 2006 the Lao government ceased imposing import restrictions on trading companies, whether foreign or domestic, in an effort to let the market respond to actual demand. The Lao government no longer requires companies to file an annual import plan for approval by the Ministry of Commerce. The main exception is the fuel industry, where individual companies are still required to file an annual import plan. The government controls the retail price and profit margins of gasoline and diesel. A large American oil company announced in late 2007 it was leaving the Lao market to focus on more profitable countries within Asia. Government documents articulating the restrictions and explaining the policy are difficult to obtain. Goods that are always prohibited for import and export range from explosives and weapons, to literature that presents a negative view of the Lao government, to certain forestry products and wildlife. For a detailed list of import & export restrictions please visit http://www.moc.gov.la/default.asp.

Agriculture production and most manufacturing production is private. State-owned enterprises (SOEs) currently account for only one percent of total employment. Approximately 97 percent of manufacturing units are small (fewer than 10 employees). Among the medium and large units, 35 percent are privately owned by Lao citizens and 55 percent are joint ventures with foreigners. The rest are owned by the government (including provincial governments). Foreign companies interested in acquiring SOE,s should apply through the Department for Promotion and Management of Domestic and Foreign Investment (DDFI) in the Ministry of Planning and Investment (MPI). Equity in medium and large-sized SOE,s can be obtained through a joint venture with the Lao government.

CONVERSION AND TRANSFER POLICIES

In order to facilitate business transactions foreign investors generally open commercial bank accounts in both local and foreign convertible currency at domestic and foreign banks in Laos. Australian, Vietnamese, Thai, and Malaysian banks currently have a presence in Laos. Bank accounts must be maintained in accordance with the Enterprise Accounting Law. The law places no limitations on foreign investors transferring after-tax profits, income from technology transfer, initial capital, interest, wages and salaries, or other remittances to the company,s home country or third countries so long as they request approval from the Lao government. These transactions are conducted at the official exchange rate on the day of execution, upon presentation of appropriate documentation. Supply of foreign exchange has in the past been limited in Laos, which imposed a de facto limit on repatriation of capital. Foreign currency inflows in recent years, however, have reportedly solved this problem and large multinationals in Laos report no problems with access to foreign exchange. Foreign enterprises must report on their performance annually and submit annual financial statements to the Ministry of Planning and Investment (MPI).

EXPROPRIATION AND COMPENSATION

Foreign assets and investments in Laos are protected by laws and regulations against seizure, confiscation, or nationalization except when this is deemed necessary for a public purpose, in which case foreign investors are to be compensated. While there have been no expropriations, the Lao Government has revoked the foreign investment license of companies in a less than transparent process. Revocation of an investment license cannot be appealed to an independent body, and companies whose licenses are revoked must then liquidate their assets relatively rapidly. A company that fails to begin conducting business within ninety days of registering could be dissolved, if it does not have a reasonable explanation.

DISPUTE SETTLEMENT

According to the Foreign Investment Law, investors involved in investment disputes must seek arbitration before taking legal action. If arbitration does not result in an amicable settlement, litigants may submit their claims to the economic arbitration authority of Laos, or that of the investor,s country, or an international organization agreed on by both parties. In practice, there are no adequate independent arbitration venues in Laos. Foreign investors are therefore generally advised to seek arbitration outside the country, since Laos, nascent domestic arbitration authority lacks enforcement powers. Laos is not a member of the International Center for the Settlement of Investment Disputes. It became a party to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards on September 15, 1998, but Laos has never been asked to enforce a foreign arbitral award. Laos is a member of the United Nations Convention on International Trade Law.

In disputes involving the Ministry of Planning and Investment, decisions can only be appealed back to the Ministry itself. There is no independent body. Thus a company which feels it is receiving unfair treatment from the government has no independent recourse. In 2007 two U.S.-owned small companies were involved in disputes with the Lao government. One company had its investment license revoked and the U.S. owners were given no option other than

to liquidate their assets. Another is still working with Lao authorities to resolve the issue. The Lao government has cooperated with the Embassy in addressing the disputes.

Laos, legal system is evolving, but remains incomplete in many regards. Laws sometimes contradict each other and often lack implementing regulations. For example, tax exemptions and low import duties guaranteed to foreign investors under the foreign investment law are not reflected in customs or tax law. Supported by the Japan International Cooperation Agency (JICA), Singapore, and the United Nations Development Program (UNDP), some laws have been officially translated into English. These include the business, tax, bankruptcy, customs, and secured transaction laws. Implementing regulations for the Foreign Investment Law, which are crucial to enforcement, were approved on October 10, 2005. The reliability of unofficial translations varies considerably, which can create an environment of uncertainty and ambiguity among foreign investors. Application of Lao law remains inconsistent and knowledge of the laws themselves is often limited (especially outside the capital). The existence of a large number of government decrees, sometimes unpublished, further complicates the situation. While the trend under the current government is towards more openness and more accountability, investors are cautioned to recognize that economic and legal reform remain a work in progress. Projects funded by the Australian government, the EU, the U.S., and the UN Development Program to assist Lao accession to the World Trade Organization (WTO) include components aimed at bringing Lao commercial law into conformity with WTO standards. A commercial court was established during 2003, and began to hear cases in 2005. The Lao Bar Association was set-up in 2007.

Laos has no anti-trust statutes. The bankruptcy law permits either the business or creditor the right to petition the court for a bankruptcy judgment, and allows businesses the right to request mediation. There is no record of foreign-owned enterprises, whether as debtors or as creditors, petitioning the courts for a bankruptcy judgment.

PERFORMANCE REQUIREMENTS AND INCENTIVES

Laos does not impose performance requirements per se. Foreign investors are encouraged to give priority to Lao citizens in recruiting and hiring. According to the foreign investment law, foreign personnel can be hired, although they may not exceed ten percent (10%) of the enterprise,s total labor force. In the case of skilled labor, or politically important projects, the Ministry of Planning and Investment has confirmed that enterprises can hire over 10% foreign labor if necessary. Before bringing in foreign labor, the enterprise must apply for work permits from the Ministry of Labor and Social Welfare. A foreign personnel list must also be submitted to the Planning, Monitoring and Evaluation Division of the Department for Promotion and Management of Domestic and Foreign Investment (DDFI).

Incentives for Foreign Investment: Laos grants incentives for foreign investment depending on the sectors and zones of investment promotion. The government defines promoted activities under Article 16 as follows:

1) production for export;
2) activities relating to agriculture or forestry, and agricultural, forestry and handicraft processing activities;
3) activities relating to industrial processing, industrial activities using modern techniques and technology, research and development, and activities relating to the protection of the environment and biodiversity;
4) human resource development, skills development and public health;
5) construction of infrastructure;
6) production of raw materials and equipment to be supplied to key industrial activities; and,
7) development of the tourism industry and transit services.

The Law on the Promotion of Foreign Investment:

http://www.undplao.org/whatwedo/bgresource/go v laolaws.php

describes geographical and tax incentives in articles 17 and ¶18.

Foreigners employed in Laos, including foreign investors, must pay an income tax of 10 percent of their total income to the Lao Government, unless they are citizens of a country with which the Lao Government has signed a double taxation agreement. The United States has no such agreement with Laos. The turnover tax is scheduled to be replaced in 2009 with a Value Added Tax (VAT).
Foreign investors are not required to pay import duty on equipment, spare parts and other materials used in the operation of their enterprises. Raw materials and intermediate goods imported for the purpose of processing and re-export are exempt from import duties. Raw materials and intermediate goods imported for the purpose of import substitution are also eligible for import duty reductions on a case-by-case basis. On an individual basis, foreign investors are also eligible for profit tax and import duty reductions or exemptions, if the investment is significantly large or determined to have a significant benefit to Laos, socio-economic development. To date the Lao Government appears to have honored its incentives.

Annual business license renewal is contingent upon certification that corporate income taxes have been paid. The tax code was streamlined and simplified in April 2005, but some investors still report significant difficulties in obtaining tax certifications in a timely manner.
The Foreign Investment Law stipulates that foreign investors and their families, including foreign professionals and foreign employees of an enterprise, shall be facilitated by issue of multiple entry visas and, if approved by the government, long term residence in the Lao PDR. They also, in theory, have the right to apply for Lao nationality in accordance with the Law on Nationality.
RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT
The government recognizes the right of private enterprise ownership, and foreigners may transfer shares of a foreign-invested company without prior government approval. However, the business law requires that all shareholders be listed in the articles of association, and changes in the articles of association of a foreign-invested company must be approved by DDFI-Ministry of Planning and Investment (MPI) , per the Enterprise Law http://www.moc.gov.la/default.asp. Thus, transferring shares in a foreign-invested company registered in Laos does require the indirect approval of the government (DDFI-MPI).
PROTECTION OF PROPERTY RIGHTS
Foreign investors are not permitted to own land. The government grants long-term leases, and allows the ownership of leases and the right to transfer and improve leasehold interests. Government approval is not required to transfer property interests, but the transfer must be registered and a registration fee paid. This includes mortgage leases.
Secured interests in property are inadequately covered by the Secured Transactions Law of 1994. Because the law offers no instructions for the creditor to enforce security rights (the creditor, for example, can only request repayment from the debtor), the law favors the debtor. Moreover, since the Ministry of Finance,s registry system is not computerized, and cannot cross-reference records, it is difficult to determine if a piece of property is encumbered. Enforcement of a mortgage is further complicated by the legal protection given mortgagees against forfeiture of their sole place of residence.
Laos issued a trademark decree in January 1995. The National Science and Technology Organization (NSTO), part of the Prime Minister,s Office, controls the issuance of trademarks on a first-come, first-register basis. Applicants do not have to demonstrate prior use. There are currently over 15,854 trademarks registered in Laos.
Laos became a member of the ASEAN Common Filing System on patents in 2000 but lacks adequate personnel qualified to serve as patent examiners. A draft decree on patents was sent to the Prime Minister in February 2000 for approval and in 2002 the Prime Minister,s Office issued patent regulations. Since Thailand and Laos have a bilateral

Intellectual Property Rights (IPR) agreement, in principle a patent issued in Thailand would also be recognized in Laos. Currently, no system exists to issue copyrights in Laos. Laos became a member of the World Intellectual Property Organization (WIPO) Convention in January 1995 and the Paris Convention on the Protection of Industrial Property in October 1998; it has not yet joined the Bern Convention on Copyrights. Although WIPO began to assist Laos in drafting an intellectual property law in 1996, a WTO-compliant law has not yet been implemented. In December 2007 the National Assembly approved a law the Lao government claims will cover its U.S. Bilateral Trade Agreement (BTA) responsibilities, as well as be WTO compliant. The law is currently being rewritten to accommodate additional suggestions from the National Assembly, and will then need approval by the President before coming into effect. Overall, there is currently little protection for intellectual property rights in Laos, although the authorities have taken steps to crack down on some pirated goods.

TRANSPARENCY OF THE REGULATORY SYSTEM

The principal laws, regulations, decrees and guidelines governing international trade and investment, as well as the current protection of intellectual property, are available to the public, although not all have been officially translated into English. Laws and their schedules for implementation are customarily published in Lao daily newspapers, and relevant line ministries are beginning to put laws and regulations on websites. The website for UNDP Laos maintains a partial list of translated Lao laws:
http://www.undplao.org/whatwedo/bgresource/go v laolaws.php

The Enterprise Law No 11/NA, Vientiane, dated 9 November 2005, and the Business Law No 005/94, 18 July 1994 have been approved and are awaiting final implementation decrees. The lack of clear decrees has slowed implementation of the laws. These laws can find on the following websites:
http://www.na.gov.la/eng/hethong.htm;
http://www.poweringprogress.org/energy sector/legislation.htm
http://www.moc.gov.la/gioithieuAP.asp

In addition, implementation of the budget law commenced with the restructuring of the Ministry of Finance (MoF) via Prime Ministerial Decree Number 80 of February 28, 2007. In September 2007 the Prime Minister issued Order No 35 instructing the MoF to move ahead with centralization of customs, tax and treasury departments.

A lack of transparency in a centralized decision-making process, as well as the difficulty encountered in obtaining information, augment the perception of the regulatory framework as arbitrary and inscrutable. There have been reports that the government has recently begun discussing some proposed laws and regulations with the business community, and acted upon the advice given, before making final decisions. The Lao Tourist Association has repeatedly urged the Lao government at the &Lao Business Forum,8 a business-government meeting sponsored by the Lao government and the International Finance Corporation (IFC), to discuss proposed laws with industry prior to implementation.

EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

Laos does not have a developed capital market. Three-month treasury bills are occasionally offered for sale when there is a need to absorb excess liquidity in the economy. The largest denomination of currency is 50,000 kip (about US $5). Credit is not available on the local market for large capital investments, although letters of credit for export can sometimes be obtained locally. International reserves fluctuate, with the latest available 2007 data showing sufficient coverage for 5 months of imports and numbering $485 million.

The banking system is under the supervision of the Bank of Lao PDR, and includes:

three state-owned commercial banks: Banque pour Le Commerce Exterior Lao (BCEL), Lao Development Bank and Agriculture Promotion Bank;

two joint-venture banks: Joint Development Bank and Lao-Viet Bank;

five Thai banks: Bangkok, Siam Commercial, Krungthai, Thai Military and Ayoudhiya Banks whose activities are mainly limited to providing services to local Thai businesses;

three private banks (2 foreign and one domestic): Malaysia - Public Bank (Berhad); ANZ Vientiane Commercial Bank Limited and Domestic Phongsavanh Bank; and
one representative office: Standard Chartered Bank.

A new banking law passed in 2006 allows private foreign banks to establish branches in all provinces of Laos. (Previously, foreign banks were permitted to establish branches only in Vientiane.) The Commercial Bank law is available on the Bank of Lao PDR (BOL) website:http://www.bol.gov.la/index1.php. However, implementing regulations have not yet been published. BCEL has correspondence arrangements with the following banks (US dollars):

JP Morgan Chase Bank, New York
Citibank, New York
Wachovia Bank, New York
American Express Bank, Ltd., New York
HSBC Bank, New York
Standard Chartered Bank, New York
Barclays Bank Plc., London
Credit Suisse First Boston, Zurich
Bank of Tokyo-Mitsubishi, Ltd, Tokyo
Natexis Banque Populaires, Singapore
Standard Chartered Bank, Singapore
Bank for Foreign Trade of Vietnam, Hanoi
TMB, Bank Public Co, Ltd, Bangkok
Bank Thai Public Co. Ltd. Bangkok
Calyon, Bangkok
Sumitomo Mitsui Banking Corporation, Tokyo

The Lao banking sector is in flux, with new private and foreign banks opening to provide modern banking options to Lao and foreign businesses. While continuing to receive outside assistance, central bank supervision of the sector remains somewhat weak and state-owned commercial banks (SCBs) carry a heavy burden of past non-performing loans due to directed lending and poor credit standards. The two major SCBs, BCEL and the Lao Development Bank, carry non-performing loan ratios of about 60 percent of loans, according to the IMF. Although the SCBs were recapitalized as recently as 2003, and are supposed to receive two more infusions of funds from the sale of government recapitalization bonds, the bonds have not yet been issued. The Asian Development Bank has provided both program loans and technical assistance to Laos, financial sector, as have the World Bank and the IMF. These programs have not succeeded in eliciting significant reforms. In 2007 several agreements between Lao banks and their Chinese and Vietnamese counterparts, aimed at increasing the technical and human resource capacity of the Lao banking system, came into effect. The results of these agreements are not yet evident.
The Government of Laos is planning to open a stock exchange in 2010, with technical assistance provided from the South Korean government.

POLITICAL VIOLENCE

Laos is generally a peaceful and politically stable country. The remnants of an insurgency occasionally carry out small-scale attacks on government personnel and civilians. Foreign persons are not deliberately targeted, and visitors are advised to use caution when traveling in remote districts.

CORRUPTION

The Prime Minister,s Office has made combating corruption a priority, including issuance of an anticorruption decree in November 1999, but corruption remains a problem. Although the 1999 decree specifically notes the responsibility of the state-owned mass media in publicizing corruption cases, there has been no reporting on this issue. In 2005 an anti-corruption law was passed by the National Assembly. To date there have been no implementing regulations and no prosecutions. Laos is not a signatory to the OECD Convention on Combating Bribery. The Counter-Corruption Committee in the Prime Minister,s Office is the Lao government agency responsible for combating corruption. Both giving and accepting bribes are criminal acts punishable by fine and/or

imprisonment. Besides bribes to low-level officials for the purpose of expediting time-sensitive applications, such as business licenses, importation of perishable items, customs, etc., anecdotal evidence of more pervasive corruption is growing. The State Inspection Authority in the Prime Minister,s Office analyses corruption at the national level and serves as a central office for gathering details and evidence of suspected corruption. Additionally, the State Inspection Departments in each Ministry is responsible for a ministry,s internal problems.
Generally, the government tends to deal with corruption problems by forcing corrupt officials to retire or move to a new position.

BILATERAL INVESTMENT AGREEMENTS
Laos has bilateral investment agreements with the following countries:

Country	Date Signed	Date Entered Into force	Duration (in years)
Australia	4/6/94	4/8/95	10
China	1/31/93	6/01/93	10
Cuba	4/28/97	6/10/98	10
Denmark	9/28/98	5/9/99	10
DPRK	8/20/97	8/22/98	10
France	12/12/89	3/8/91	10
Germany	8/9/96	3/24/99	10
Holland	5/23/03	-	10
India	11/09/00	1/6/03	10
Indonesia	10/18/94	10/14/95	10
Malaysia	12/8/92	3/25/93	10
Mongolia	3/3/94	10/29/94	10
Myanmar	5/5/03	8/28/07	-
Netherland	5/16/03	-	-
Pakistan	4/23/04	3/19/07	-
Philippines	6/8/07	-	10
Rep of Korea	5/15/96	6/14/96	15
Russia	12/6/96	22/03/06	15
Singapore	3/24/97	3/25/98	10
Sweden	8/29/96	1/1/97	20
Switzerland	12/4/96	12/4/96	10
Thailand	22/08/90	07/12/90	10
United Kingdom	6/1/95	6/1/95	10
Vietnam	1/14/96	6/22/96	10

On February 1, 2005 a Bilateral Trade Agreement (BTA) came into force between the U.S. and the Government of Laos. Laos and the United States do not have a bilateral taxation treaty.

OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS
The United States and Laos signed an Overseas Private Investment Cooperation (OPIC) agreement in March 1996. In 1998 Laos signed an agreement with the Multilateral Investment Guarantee Agency (MIGA). EXIMBANK does not currently operate in Laos.
The kip, while not an internationally traded currency, has been appreciating against the U.S. dollar over the past year, thanks in part to being pegged to the Thai baht. As large amounts of dollars continue to enter Laos it is unlikely the kip will depreciate against the dollar barring a significant economic downturn.

LABOR
Over 70 percent of Laos, work force of 2.6 million is engaged in subsistence agriculture. The Lao government estimated the total non-agricultural work force in 2007 to number 483,560 people, roughly 25,000 of whom were employed in garment manufacturing. The total labor force is expected to increase by more than 30 percent over the next ten years. The Labor Law passed in 1994 provides for the formation of trade unions; specifies working hours and compensation standards; allows for maternity leave and benefits; workers, compensation and retirement benefits; and establishes procedures for labor dispute resolution. The Lao government raised the official minimum wage to 200,000 kip per month (about $20 USD) in 2007. Wages for unskilled labor at garment factories, including bonuses and lunch, now run about

290,000 kip or about US $30 monthly. Labor unions can be formed in private enterprises, but they must operate within the framework of the Lao Federation of Trade Unions (LFTU), which is controlled by the Lao People,s Revolutionary Party. In 2007, there were 3,042 trade unions nationwide, and membership in the LFTU numbered 112,557. Strikes are not prohibited by law, but a government ban on subversive activities or destabilizing demonstrations makes them unlikely.

Laos has significant human resource deficiencies in virtually all sectors. English is not widely spoken. In 2006, about 31 percent of the population age 15 and above remained illiterate. The shortage of skilled labor is particularly acute in high-tech sectors. The country has a few technical colleges, one scientific research facility--the National Institute of Hygiene and Epidemiology--and almost no effective post-graduate degree programs. The Lao Government has dedicated very few of its own resources to improve the country,s education system and tends to rely heavily on international donors for support; there are a few state training programs and some foreign-funded programs. Potential investors should note the need to dedicate substantial resources, both human and capital, to train employees. It is not unusual for foreign investors to bring in Thai managers due to a lack of skilled local personnel.

FOREIGN TRADE ZONES/FREE PORTS

The Foreign Investment Law allows for the establishment of free trade zones as an investment incentive. A zone in southern Savannakhet province, which borders both Vietnam and Thailand, is such a Special Economic Zone. Lao laws pertaining to trade are supposedly applied uniformly across the entire customs territory of Laos, including all sub-central authorities, special economic zones and border trade regions. In reality, however, customs practices vary widely at ports of entry in the provinces. The recent centralization of customs collection with the central government could lead to more uniform practices and increase the flow of customs revenue to the central government by an estimated fifty to seventy percent.

FOREIGN DIRECT INVESTMENT STATISTICS

GOL investment figures significantly overstate actual investment, as they include all approved projects regardless of whether the investment actually takes place. Both the World Bank and the IMF have lower estimates than Lao government figures. During 2007 the GOL approved $1.1 billion worth of foreign investment projects. Hydropower schemes account for about 31.7 percent of that amount. Foreign investment figures fluctuate widely from year to year due to the prevalence of large-scale investments in the hydropower and mining sectors. Foreign direct investment figures from the Bank of Lao PDR for recent years follows below:

Real FDI inflow through Bank of Lao PDR (in Million of US $)

2000	2001	2002	2003	2004	2005	2006
33.9	23.9	4.5	19.5	16.9	27.7	187.3

FDI approved (in Million of US $)

2000	2001	2002	2003	2004	2005	2006	2007	
20.4	42	493.8		550	533	1,245	2,699.7	1,136

Between 2000 and 2007, DDFI approved approximately $6.27 billion in investment projects. According to DDFI figures, 23 &U.S.8 projects were approved between 2000 and 2007, including 6 projects worth a total of $4.52 million in 2007. Foreign investment now comes primarily from other Asian countries, particularly Thailand (traditionally Laos, largest trade and investment partner), China, Vietnam, France, Japan, India, Australia, and Korea.

Foreign Investment Licensed in the Lao PDR by countries of origin, from 2000 through September 2007, in U.S. Dollars. (Source: Department for Promotion and Management of Domestic and Foreign Investment (DDFI), Ministry of Planning and Investment (MPI).

Rank	Country	Number of Projects	Capital
1	Thailand	169	1,355.704,001
2	China	237	1,138,881,152
3	Vietnam	120	535,707,572
4	France	58	428,277,679

5	Japan	33	420,376,553
6	India	3	350,200,000
7	Australia	27	330,897,196
8	Korea	105	294,435,705
9	Malaysia	33	135,260,392
10	Singapore	22	100,260,392
11	Canada	9	48,561,750
12	Switzerland	5	31,561,750
13	England	14	17,396,500
14	Russia	10	16,375,310
15	Norway	1	12,800,000
16	Taiwan	8	12,600,000
17	USA	23	12,137,226
18	Poland	1	5,000,000
19	Germany	14	4,181,508
20	Italy	3	3,600,000
21	Peru	1	3,000,000
22	Cambodia	4	2,069,500
23	Panama	1	1,750,000
24	Holland	2	1,300,000
25	Myanmar	4	1,180,000
26	Island	2	1,100,000
27	Israel	1	1,020,000
28	Indonesia	1	1,000,000
29	Sweden	4	995,135
30	Belgium	4	900,000
31	Sri Lanka	1	200,000
32	Cuba	1	185,000
33	Portugal	1	100,000
34	Turkey	1	100,000
35	Nepal	1	100,000
36	Philippines	1	100,000
37	Spain	1	28,125

Foreign Investment Licensed in Lao PDR by Sector, from 2000 through September 2007, in US Dollars. (Source: Department for Promotion and Management of Domestic and Foreign Investment (DDFI, Ministry of Planning and Investment.)

Ranks	Sector	No. of Projects	Capital
1	Electricity	40	3.294,791,585
2	Agriculture	157	785,340,225
3	Mining	139	624,853,829
4	Industry & Handicraft	187	450,988,772
5	Service	171	318,888,580
6	Trading	98	271,641,554
7	Hotel and Restaurant	59	160,661,245
8	Construction	23	159,686,874
9	Wood industry	38	84,207,154
10	Banking	10	45,096,000
11	Telecom	3	39,940,000
12	Garment	33	24,156,688
13	Consultancies	30	7,913,252
Total		988	6,268,174,758

In 2007, the Lao PDR continued to experience rapid growth of FDI. Actual FDI is expected to increase by about 24.5 percent, from roughly $319 million in 2006 to about $785 million in 2007. The rapid growth has been driven by large investments in industry, especially hydropower, agriculture and mining.

Huso